



City of College Station

POPULAR ANNUAL FINANCIAL REPORT

As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2008 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental and proprietary funds and was drawn from information found in the 2008 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Ingram, Wallis & Co., P.C.

Unlike the CAFR, the PAFR is unaudited and presented on a non-GAAP basis. The GAAP basis presentation in the CAFR includes the presentation of individual funds, as well as full disclosure of all material events, financial and non-financial, in notes to the financial statements. Copies of the CAFR are available for public viewing at City Hall and online at:

<http://www.cstx.gov/home/index.asp?page=258>.

FINANCIAL HIGHLIGHTS ...

The assets of the City of College Station exceeded its liabilities at the close of the fiscal year by \$371.6 million (net assets). Of this amount, \$103.7 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$19.2 million during the fiscal year.

Sales and mixed beverage taxes increased \$1.8 million (9.7%) during the year. In addition, property tax revenues increased \$2.1 million (11.3%). Sales taxes and property taxes account for 55% of the city's Governmental Revenues and 77% of the General Fund's revenues.

BOND RATING ...

The City received its most recent bond ratings in August 2008. The City received an upgrade from Standard & Poor's to AA from AA-. Moody's Investors Service confirmed the City's bond rating of Aa3. The "AA" rating is reserved for organizations characterized by competent management, stable economies and manageable debt level. As with bonds rated "AAA", an "AA" obligor is judged to have a very strong capacity to meet its financial commitments.

ABOUT COLLEGE STATION ...

College Station was incorporated in 1938 and has an estimated population of 89,903 as of September 30, 2008. The city covers 47.2 miles in East Central Texas and is the home of Texas A&M University, one of the top 50 universities in the United States.

The City is a home-rule municipality and utilizes a Council-Manager form of government organized under the constitution and laws of the State of Texas. The City Council is composed of a mayor and six council members elected at large.

The City Council appoints the City Manager, City Attorney, City Secretary, Municipal Court Judge and Internal Auditor. Almost all other City staff work under the direction of the City Manager. The City employed approximately 900 full-time equivalent (full-time, part-time and seasonal/temporary) employees in 2008.

During fiscal year 2008, the priorities of public safety, exceptional infrastructure, multi modal mobility and a destination place to live and work were addressed. \$45 million in new provisions for governmental capital projects and \$42 million in business-type projects were made available in 2008.

The Fire Station #3 relocated in April 2008. The station, designed to harmonize with the surrounding neighborhoods and blend with the environment, earned Fire Chief Magazine's top "Gold Satellite" award for the station's design. The new station's location improves response time and coverage to citizens.

The Community Emergency Operations Center (CEOC) opened in June 2008. Staffed with management personnel from College Station, Bryan, Brazos County and Texas A&M, full activation of this new emergency facility occurred in response to Hurricane Ike in September 2008.

During 2008, the City completed Dartmouth Extension Phase II, Bee Creek to Southwest Parkway Drainage Project, the Bike Loop Project, Pedestrian Improvements on 2818 and on University and numerous park improvements, including Veteran's Park Phase II road extension, Oaks Park Basketball Pavilion, Southwood Park Little League lights, West Park and Gabbard Park. A new forestry shop for Parks and Recreation also finished construction in 2008.

In August 2008, the City issued \$35.8 million in debt that will permit significant improvements to the City's infrastructure and provide a higher quality of life to its citizens. Included in the newly funded projects is \$7.3 million for General Government projects, the majority of which being the \$6.7 million Memorial Cemetery, with its Aggie Field of Honor, a project the entire community will be proud to have. Other projects funded with the August 2008 issuance were \$1.5 million in parks and recreation improvements, \$11.2 million in street/traffic improvements and \$15.8 million in Water, Wastewater and Electric system improvements.

One of the significant projects faced during 2008 was the preparation for the 2008 bond election. The Capital Improvement Committee prepared and Council approved the list of projects that went to the voters in November 2008. Voters approved 4 of 6 propositions for \$76.95 million for streets and transportation, city library, fire station and parks and recreation.

College Station has seen continued growth in fiscal year 2008, despite the significant slowing of the national economy. The concentration of stable employment sectors such as government and higher education contribute to the steady growth that College Station has experienced over the last several years. College Station continued to see housing and commercial development during the year with 685 new housing starts during 2008. Commercial development continued to be strong with both new and redevelopment. The University Drive corridor continued to have new business and traffic.

The one major asset of the City of College Station is that it is the home of Texas A&M University (TAMU). TAMU has a significant economic impact on the City, contributing over a billion dollars annually to the local economy. Student enrollment at TAMU was 46,542 as of September 2008. TAMU employs more than 20,000 full-time and part-time staff.

We continue to monitor the effect of the nationwide economic slowdown locally. Fortunately, the impact has been minimal to date.

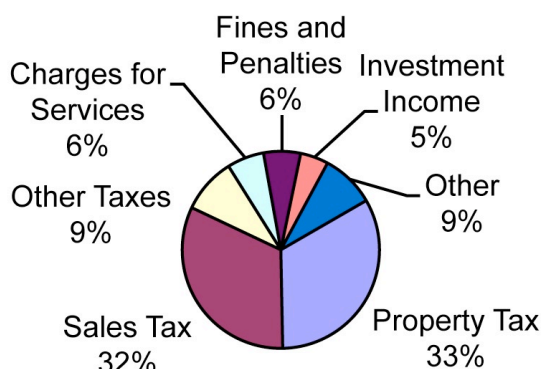
At September 30, 2008, the City's governmental funds reported a combined fund balance of \$72.3 million, a \$2.9 million increase over the prior year. These financial activities comprise the major changes in governmental fund balances:

GOVERNMENTAL REVENUES ...

Total revenues of the governmental funds increased \$4.2 million or 7.3% over the prior year. Below are details accounting for the increase:

- Property taxes increased \$2.1 million (11.3%) during the year. This is primarily the result of the total ad valorem assessed valuations increasing by \$491 million over the previous fiscal year.
- Sales and mixed beverage taxes increased \$1.8 million (9.7%) during the year. This is attributable to sustained economic growth in the area.
- Interest and investment income decreased by \$1.1 million (25.3%) during the year. This is attributable to lower interest rates on governmental investments.

The following illustrates the City's governmental revenues by source. Property tax (33%) and sales tax (32%) are the largest sources of funds, followed by other taxes (9%), charges for services (6%) and fines and penalties (6%).

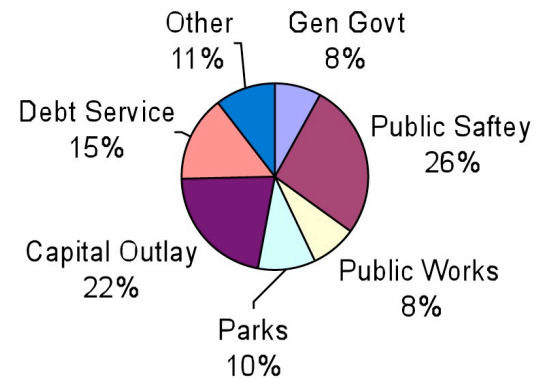


GOVERNMENTAL EXPENDITURES ...

The City of College Station's governmental fund's spending in fiscal year 2008 reflects the priorities set by the Council based on the City's Strategic Plan. Those Core Services are: Citywide Safety and Security; Effective Communications; Growing Sus-

tainable Revenue Sources Balanced with Needs; Exceptional Multi Modal Mobility; Sustainable Quality City Workforce; Exceptional Infrastructure and Core Services; Diverse Growing Economy; and Destination Place to Live and Work.

The following illustrates the City's governmental expenditures. Public Safety (27%) and capital outlay (22%) are the largest uses of funds, followed by debt service (15%), parks and recreation (10%), public works (8%) and general government (8%).



Total expenditures of the governmental funds increased \$12.6 million to \$90.4 million. The primary causes of the increase were due to higher fuel and transportation costs during most of 2008, an increase in Capital Outlays (amounts used for the purchase of equipment, roads, bridges and other capital assets) of \$5.3 million and increasing personnel costs.

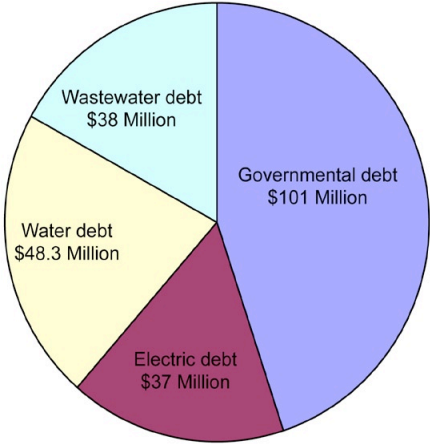
For 2009, other post employment benefit costs (OPEB) will be between \$10 thousand and \$2.2 million, government-wide, depending on the design adopted by the City for its OPEB plan. Because accounting rules changed, the City will recognize its OPEB liability for the first time in 2009.

LONG-TERM DEBT ...

The City issues long-term debt to fund long-term governmental projects (using general obligation bonds and certificates of obligation) and business-type projects (using utility revenue bonds and certificates of obligation). At 2008, the City had \$224 million in long term debt outstanding, of which \$14.9 million will mature during fiscal 2009. The City's total debt increased by \$21.4 million (10.5%) during fiscal year 2008. The increase in total debt resulted from the City issuing \$9.4 million in gen-

al obligation bonds and \$26.4 million in certificates of obligation. These amounts were used to fund governmental and business-type projects and also retire \$14.6 million of previously issued debt.

General Obligation debt is payable from the City property tax revenues (the debt service property tax levy). Utility revenue bonds are payable from a portion of the charges for utility service. Certificates of obligation are paid from either source, depending on the project being funded.

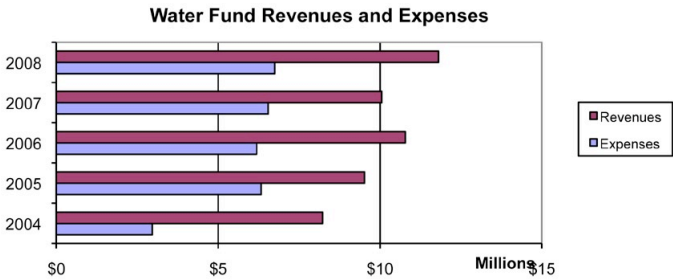


PROPRIETARY FUND INFORMATION ...

College Station currently owns and operates its own water and wastewater plants and transmits and distributes its own electricity. The financial activities of each operation are recorded in the City’s respective Water, Wastewater and Electric funds. Operating Revenues for each fund have shown steady growth in response to the expanding customer base and rate increases which correspond to rising costs.

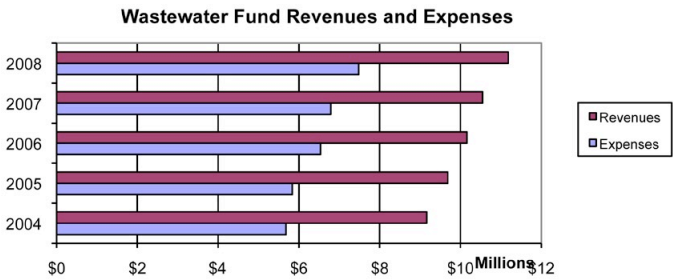
WATER FUND

The Water Fund ended the current fiscal year with an operating income of \$5.1 million on \$11.8 million in operating revenues. The Water Fund’s revenues have been gradually increasing due to an increase in the number of customers and rate increases. The Water Fund also receives developer contributions of installed water infrastructure. The Water Fund received \$2.1 million in these non-cash donations during fiscal year 2008. The following chart displays water revenues and expenses for this year and the previous four years.



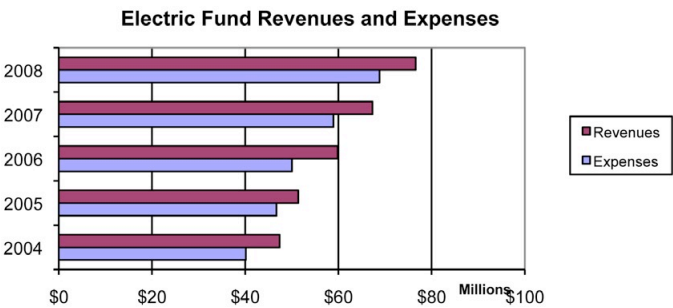
WASTEWATER FUND

The Wastewater Fund ended fiscal year 2008 with an operating income of \$3.7 million on \$11.1 million of revenue. The Wastewater Fund’s operating revenues have been increasing due to an expanding customer base and rate increases. The Wastewater Fund received \$2.6 million in non-cash developer contributions during fiscal year 2008. The following chart displays water revenues and expenses for this year and the previous four years.



ELECTRIC FUND

The Electric fund generated an operating income of \$7.7 million on \$76.6 million of operating revenues. The net assets of the Electric Fund also increase each year through developer contributions of installed electric lines. In fiscal year 2008, this non-cash contribution was valued at \$632,029. The following chart displays electric revenues and expenses for this year and the previous four years.



Most City services and projects are accounted for in a general category referred to as Governmental Funds. These brief descriptions provide basic information about the governmental fund types.

- The General Fund accounts for revenues and expenditures associated with the general operations of the City that are not required to be accounted for in separate funds.
- Special Revenue Funds account for proceeds of specific revenue sources that are legally restricted for specific purposes (as an example, Community Development Block Grants and Red Light Cameras).
- Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.
- Capital Projects Funds account for the financial resources used for the construction and/or acquisition of major capital facilities.

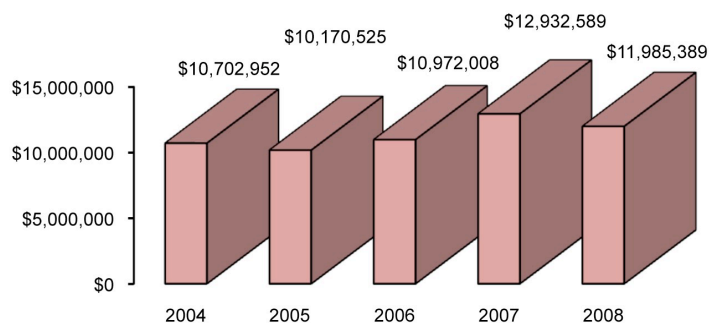
Proprietary (business-type) funds account for activities the City operates in a manner similar to private businesses. There are two types of proprietary funds: Enterprise funds and Internal Service funds. The City has five enterprise funds (Electric, Water, Wastewater, Sanitation and Northgate Parking Garage) and eight internal service funds (Communication Services, Employee Benefits, Equipment Replacement, Fleet Maintenance, Property and Casualty, Unemployment, Utility Customer Service and Workers' Compensation).

The PAFR focuses on the City's major funds, which are of most interest to citizens: the General Fund, Electric Fund, Water Fund and Wastewater Fund. In addition, we present the aggregate financial activities of the Governmental Funds.

Fund balance is the excess of what the City owns (assets) over what the City owes (debts or liabilities). Fund balance is either reserved, unreserved (designated), or unreserved (undesignated). Fund balance that is unreserved (undesignated) is the amount of funds available to spend at the city's discretion. The City's fiscal and budgetary policies require that the General Fund's unreserved (undesignated) fund balance be at least equal to 15 percent of budgeted expenditures, a percentage equal to 55 days of expenditures. At the end of the fiscal year, the unreserved, undesignated fund balance is approximately 18 percent of fiscal year 2008 budgeted expenditures and exceeds the minimum requirement set by policy.

At the end of the current fiscal year, unreserved and undesignated fund balance decreased by \$2.1 million from fiscal year 2007, while the General Fund reserved fund balance increased by \$1.2 million. Overall, the total General Fund balance reached \$11.9 million, a decrease of \$947,200 (7.3%) during the current fiscal year. The primary factor for this reduction was an increase in expenditures, primarily driven by an increase in the price of fuel, transportation and petroleum based products as well as increasing personnel costs. The City filled vacant positions, including several top management positions, funded through the General Fund during the fiscal year.

The following chart displays the General Fund Balance for the current year and four previous years.



MISSION STATEMENT

On behalf of the citizens of College Station, home of Texas A&M University, we will continue to promote and advance the community's quality of life.

CITY OF COLLEGE STATION CORE VALUES

To Promote...

- The health, safety & general well being of the community
- Excellence in customer service
- Fiscal responsibility
- Involvement & participation of citizenry
- Collaboration & cooperation
- Regionalism: be active member of the Brazos Valley community & beyond
- municipal-empowering activities

Organizational Values...

- Respect everyone
- Deliver excellent service
- Risk, Create, Innovate
- Be one city, one team
- Be personally responsible
- Do the right thing – act with integrity, honesty
- Have fun

FINANCIAL REPORTING AWARDS ...

The City received the following awards from the Government Finance Officers Association (GFOA) in 2008:

- Certificate of Achievement for Excellence in Financial Reporting for the year ended September 30, 2007. For twenty out of the last twenty-one years, the Government Finance Officers Association has awarded the City a Certificate of Achievement for Excellence in Financial Reporting. This award is the highest form of recognition for excellence in state and local government financial reporting.
- Distinguished Budget Presentation Award for the year beginning October 1, 2007. The GFOA established the this program in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's recommended practices on budgeting.

ACKNOWLEDGEMENT ...

The preparation of this report could not have been accomplished without the efforts of the entire staff of the Fiscal Services Department. We would also like to express our thanks to the City's Public Communications Department and IT staff for their support on the City's first PAFR. Our appreciation is also extended to the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.